

Congress of the United States
Washington, DC 20515

March 24 2010

The Honorable Timothy Geithner
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, DC 20220

Dear Mr. Secretary:

We are writing to express our profound concern about the foreclosure crisis and its effects on our constituents and our nation. Since the announcement of the Homes Affordable Modification Program (HAMP) last March, the Treasury Department has not made significant progress in arresting foreclosures or attenuating their effect on our economy. It is time seriously to examine new ideas for addressing the problem.

By any measure, HAMP has fallen drastically short of expectations. We understand that you are working on ways to improve the program and expect to increase the number of permanent modifications in the first half of 2010. We applaud this effort, but we are skeptical that it will achieve the results needed. Like the Hope for Homeowners Program and other preceding federal foreclosure mitigation efforts, HAMP is premised on the assumption that private loan servicers can or will voluntarily modify loan terms in exchange for federal incentives. This is an approach that has been tried time and again but has not worked.

The government's failure to take effective actions to manage the avalanche of home foreclosures is one of the great public policy failings of our time. In 2009, the U.S. experienced a record 3.9 million foreclosure filings. That number will rise to 4.5 million filings this year, and by the end of 2010, experts think it is likely that fully three million will see their homes repossessed. About one mortgage-holder in four is "underwater"—that is, owes more on their home than their home is worth—and one in seven is behind on their mortgage. Until the government slows foreclosures, any actions taken to correct the country's economic slide will be of limited value. Yet foreclosures continue unabated.

The sheer number of mortgage loans at risk is daunting. Private loan servicing capacity is so overwhelmed that it is virtually useless as a policy instrument, and the government may need to create its own parallel servicing structure just to keep track of distressed loans, much less modify them on a scale that will effect a broader economic relief. But the size and scale of the current foreclosure crisis is not the primary obstacle to an effective federal response. During the Great Depression, the government successfully acquired, refinanced, serviced and sold more than a million mortgages, accounting for one in every five non-farm dwellings in the United States. Such actions prevented untold foreclosures, and even managed to return a small profit to the

Treasury. If the problem today were a matter of scale alone, this performance might be replicated. Unfortunately, it is not – the crucial difference being today's complicated securitization vehicles that own and control most distressed mortgages.

Structural problems created by the "securitize and sell" model that fueled the mortgage boom are making the ability to control the fallout from the foreclosure crisis exponentially more difficult. The very same financial alchemy that was developed to disperse risk – typified by opaque pools of mortgage loans of varying size, property type and location, and held in trusts and segregated in tranches – has boomeranged, dispersing not just investment risk, but the control that comes with ownership, such that no group is in a position to fix the problem – not lenders, investors, servicers, borrowers or the government. Loan servicers cannot make voluntarily modifications to mortgage loans, regardless of government incentives or the interest of borrowers, lenders, and the investors holding interests in the loans.

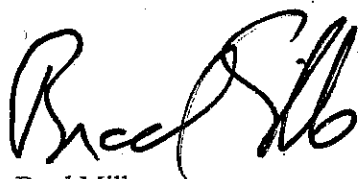
The best way to slow foreclosures may be to establish a new federal entity, modeled on the Home Owners Loan Corporation (HOLC), but vested with specific tools and authorities to match the unique challenges of today's foreclosure crisis. Such an entity could be brought into existence relatively quickly, capitalized by funds from the Troubled Asset Relief Program (TARP), and operated at little or no long term cost to the taxpayer. In some instances, a new HOLC could purchase distressed mortgages at auction, but to succeed on a large scale, the new corporation may need additional means to acquire mortgages.

One possibility, championed by Harvard Law School's Howell Jackson, would be to affect the purchase of certain distressed mortgages at fair market value by eminent domain. Eminent domain powers are most commonly used to purchase land for highways or public buildings, but condemnation powers may be used to purchase any property that the government may legally acquire.

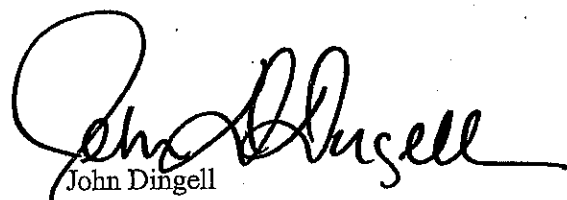
Congress could explicitly authorize the Treasury to purchase and modify distressed mortgage loans, but the Treasury already has the power to do it under several existing statutes. The Emergency Economic Stabilization Act of 2008 authorizes the Secretary of the Treasury to purchase "troubled assets from any financial institution"...on such terms and conditions as are determined by the Secretary," and the federal government has standing statutory authority to invoke eminent domain whenever Congress authorizes the purchase of interests in real estates, as it has done in this case.

Though the systemic threat to our financial system has passed, the foreclosure crisis continues to rage in our communities – pulling down home values, forestalling economic recovery, and squeezing the middle class; historically the backbone of our economy. Despite the introduction HAMP last spring, the foreclosure problem is actually worse today than it was when you assumed office nearly a year ago. As you begin your second year as Secretary of the Treasury, we urge you to reexamine the approach to foreclosure prevention, and to consider bold new actions, including establishment of an HOLC, to provide real assistance to struggling homeowners.

Sincerely,



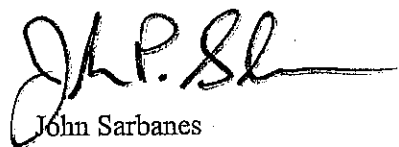
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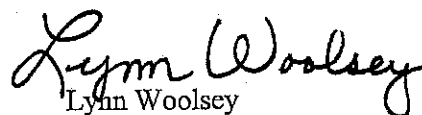
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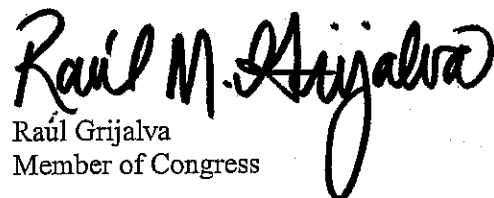
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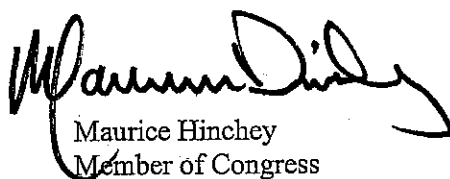
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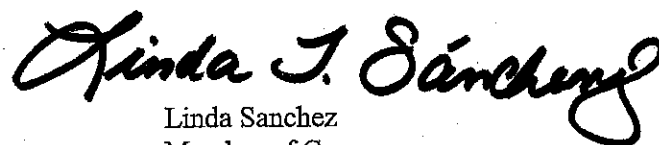
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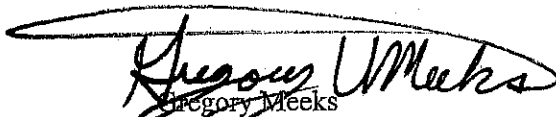
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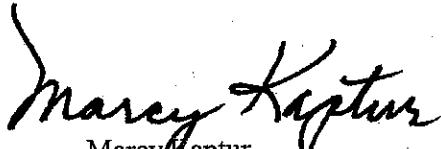


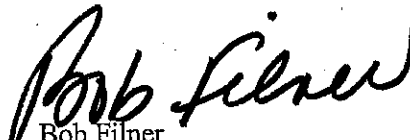
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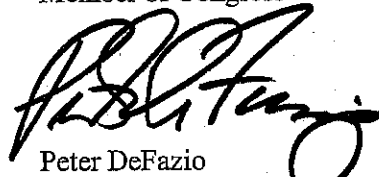

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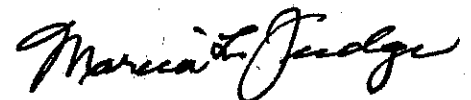

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